



**Auditor of Public Accounts
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Auditor Edelen Releases Kentucky Retirement Systems Audit, Finds 19 Deficiencies

FRANKFORT, Ky. (Dec. 11, 2013) – Auditor Adam Edelen on Wednesday released the Auditor’s first statutorily-required financial statement audit of the Kentucky Retirement Systems, expressing an unqualified, or clean, opinion on the System’s financial statements.

The audit contains 19 findings with recommendations related to significant deficiencies in internal controls over financial reporting.

This is the first time the Auditor of Public Accounts has conducted a financial statement audit of KRS under a 2010 change in law, which requires the Auditor to conduct an audit of KRS at least once every five years. KRS previously was permitted to contract with a private CPA firm to conduct its annual audits. Last year’s audit contained no findings.

“My office conducted a thorough review of the System’s financial statements,” Auditor Edelen said. “Although we issued a clean opinion, some of the findings are concerning. I hope our recommendations for improvement are heeded.”

Auditor Edelen said he is particularly concerned that auditors found there is no monitoring of contracts. KRS does not have a central listing of all contracts for tracking. The accounting department pays the invoices for the contracts that are received but does not obtain the contracts to ensure that the payment is allowable or appropriate.

When auditors requested 12 contracts to review, KRS was unable to locate three contracts procured for fiscal year 2013. One was subsequently located; however, the two additional contracts had expired and the result was \$171,197 in payments to vendors without contracts in place.

“It is inappropriate for a \$15 billion agency to not monitor contracts,” Auditor Edelen said. “Retirees, state employees and taxpayers need to have confidence that expenditures to outside vendors are proper.”

The audit found that the process for waiving penalties associated with late employer contributions is not adequate, which means KRS is not receiving all interest due from employers.

KRS’ financial statement preparation process is not adequate, auditors found. The number and magnitude of errors indicate a significant control weakness. This could lead to misstated financial statements and individual plan amounts being reported incorrectly.

Cyber security concerns also were identified. Auditors discovered individuals who were no longer employed with KRS but retained access to software systems containing sensitive and confidential information. Documentation ensuring individuals had the proper level of access to those systems was not adequate.

The audit contains other findings related to weaknesses in accounting and segregation of duties involving key financial staff.

The full report can be found on the [Auditor’s website](#).

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